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6 **IN THE UNITED STATES DISTRICT COURT**  
7 **FOR THE DISTRICT OF ARIZONA**  
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9 Natarajan Palaniappan, et al.,

10 Plaintiffs,

11 v.

12 United States of America,

13 Defendant.  
14

No. CV-22-01685-PHX-DLR

**ORDER**

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16 Plaintiffs Natarajan Palaniappan and Satya Sree Dandamudi are suing the United  
17 States for a refund of \$67,104, which was withheld by the Internal Revenue Service  
18 (“IRS”) as federal income taxes from a distribution of Palaniappan’s retirement plan.  
19 Pending before the Court are the United States’ motion for judgment on the pleadings,  
20 which is fully briefed (Docs. 30, 34, 35), and Plaintiffs’ motion to submit an additional  
21 response, which the Court construes as a motion to file a sur-reply to United States’ motion  
22 for judgment on the pleadings, and to request an oral argument (Doc. 38).

23 For the reasons that follow, the Court denies Plaintiffs’ motion to file a sur-reply  
24 and request an oral argument<sup>1</sup> (Doc. 38) and grants the United States’ motion for judgment

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26 <sup>1</sup> The Court denies Plaintiffs’ request to file a sur-reply because the United States’  
27 reply does not raise arguments or issues for the first time. Furthermore, the Court does not  
28 find Plaintiffs’ proposed sur-reply helpful to the resolution of the pending motion. *See*  
*Sebert v. Ariz. Dep’t of Corrections*, No. CV-16-354-PHX-ROS, 2016 WL 3456909, at \*1  
(D. Ariz. June 17, 2016). As to the request for oral argument, the Court finds that the issues  
concerning the United States’ motion for judgment on the pleadings are adequately briefed,  
and oral argument will not assist the Court in reaching its decision. *See* Fed. R. Civ. P.  
78(b); LRCiv. 7.2(f).

1 on the pleadings (Doc. 30).

2 **I. BACKGROUND<sup>2</sup>**

3 Gilbert Hospital hired Palaniappan in October 2009. (Doc. 1 ¶ 6.) While employed  
4 there, Palaniappan elected to participate in the 26 U.S.C. § 409A deferred compensation  
5 plan offered by Gilbert Hospital. Participation in the plan was voluntary, and employees  
6 were informed that if they elected to participate in the 409A plan, they would no longer be  
7 allowed to contribute to the Gilbert Hospital 401(k) plan. (Doc. 27-3 at 2.)

8 After experiencing financial difficulties, Gilbert Hospital filed for bankruptcy on  
9 February 5, 2014. (Doc. 1 ¶ 7.) At some point, Gilbert Hospital determined that not all the  
10 participants in the 409A plan, including Palaniappan, were qualified to participate in the  
11 plan. Considering the pendency of the bankruptcy proceedings, Gilbert Hospital decided  
12 not to subject these non-qualified participants' 409A accounts to the claims of the  
13 Hospital's creditors. Instead, Gilbert Hospital chose to liquidate the 409A plan and make  
14 secured claim distributions to the non-qualified 409A plan participants during the  
15 bankruptcy proceedings. (Doc. 27-3 at 4.)

16 In doing so, Gilbert Hospital prepared a 409A proof of claim on behalf of the 409A  
17 claimants, itemizing the value of each account to be paid to the non-qualified participants.  
18 After Palaniappan filed a limited objection to the proof of claim, Gilbert Hospital prepared  
19 an amended 409A proof of claim, showing the value of Palaniappan's claim to be  
20 \$289,127.39, of which \$72,298.60 was to be withheld as federal income tax. Palaniappan  
21 again filed an objection to this proof of claim, arguing to the Bankruptcy Court that "his  
22 409A account should not be treated like a non-qualified retirement account, for tax  
23 purposes" and that "since he was never eligible to participate in the 409A Plan, any

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25 <sup>2</sup> This section draws from the allegations in the Complaint (Doc. 1), which are  
26 accepted as true for the purposes of this order. The Court also takes judicial notice of the  
27 filings made in the following cases: *In re: Gilbert Hosp. LLC*, No. 2:14-bk-01451-MCW  
28 (Bankr. D. Ariz.), and *Palaniappan v. Gilbert Hosp. LLC*, No. CV-17-00517-PHX-JJT (D.  
Ariz.). See *Reyn's Pasta Bella, LLC v. Visa USA, Inc.*, 442 F.3d 741, 746 n.6 (9th Cir.  
2006) ("[The Court] may take judicial notice of court filings and other matters of public  
record."). The United States attached both the Bankruptcy Court's order in *In re: Gilbert  
Hosp.*, and the District Court's order in *Palaniappan v. Gilbert Hosp.*, to the pending  
motion. (See Docs. 27-3, 27-4.)

1 contributions he made . . . should have been directed to Gilbert Hospital’s 401(k) plan  
2 instead.” Palaniappan requested that the Bankruptcy Court transfer the appropriate portion  
3 of the 409A account to the Gilbert Hospital 401(k) plan or at least compensate Palaniappan  
4 for the value of the tax deferral that Palaniappan lost. (*Id.* at 8–9.)

5 Palaniappan and Gilbert Hospital engaged in discovery on Palaniappan’s objection.  
6 During this process, Gilbert Hospital liquidated Palaniappan’s 409A plan account, issuing  
7 a check to Palaniappan in the amount of \$216,895.81 and transmitting \$72,298.60 to the  
8 IRS as federal income tax withholding. (*Id.* at 10.) On September 30, 2018, following an  
9 evidentiary hearing, the Bankruptcy Court overruled Palaniappan’s objection and denied  
10 his request that the Bankruptcy Court order the IRS to transfer the 409A plan proceeds onto  
11 a qualified retired account. (*Id.* at 20.) In so holding, the Bankruptcy Court noted that  
12 Palaniappan voluntarily decided to participate in the 409A plan and that disclosures were  
13 made to him that the 409A plan was not qualified and he would not be able to roll funds in  
14 the 409A plan into other qualified accounts. The Court further found that because the 409A  
15 plan was not a qualified retirement plan and the funds of the plan, upon a change in control  
16 of the Hospital, could be disbursed in a lump sum, the 409A disbursement was subject to  
17 withholding. (*Id.* at 24–25.)

18 While these bankruptcy proceedings were ongoing, Palaniappan filed ERISA  
19 breach of fiduciary duty claims against Gilbert Hospital in the District of Arizona.  
20 *Palaniappan v. Gilbert Hosp. LLC*, No. CV-17-00517-PHX-JJT (D. Ariz.). After Gilbert  
21 Hospital failed to appear, the District Court granted Palaniappan’s motion for judgment on  
22 the pleadings and ordered Palaniappan to file a detailed accounting of damages.

23 On April 20, 2020, the Court awarded Palaniappan \$525,238 in damages. In a  
24 written order, the Court explained that the award included \$226,709 in damages for “the  
25 loss [Palaniappan] suffered when [Gilbert Hospital] moved his retirement account from a  
26 401k plan to a 409a plan.” The Court went on to deny Palaniappan’s request that it direct  
27 the IRS “to refund the \$72,231 wrongly paid to it when [Gilbert Hospital] shifted  
28 [Palaniappan’s] retirement funds from the 401k account to the 409a account,” explaining

1 that the IRS was not a party in the matter and so the Court could not compel the IRS to take  
2 any action. The Court also concluded that ordering the IRS to issue a refund “would  
3 constitute double counting of damages.” The Court noted that during a hearing on the  
4 damages award, “[Palaniappan] clarified that the \$72,231 he seeks to have the IRS return  
5 is a component of the \$226,709 that he lost as a result of [Gilbert Hospital’s] unlawful  
6 transfer of his funds from a 401k account to a 409a account.” Because the Court already  
7 accounted for and awarded Palaniappan that sum, ordering the IRS to issue such a refund  
8 would constitute double recovery for Palaniappan. (Doc. 27-4.) After entry of judgment,  
9 Palaniappan filed a notice of satisfaction of judgment on January 5, 2022. (Doc. 35-2.)

10 On March 27, 2020, Palaniappan and his wife, Dandamudi, filed an amended 2016  
11 income tax return, asserting that the “Form W-2 issued by Gilbert Hospital was issued in  
12 error” and that they “were due a refund in the amount of \$67,104.”<sup>3</sup> (Doc. 1 ¶14.) Plaintiffs  
13 provided information to the IRS regarding Palaniappan’s judgment against Gilbert Hospital  
14 as support for Plaintiffs’ claim for refund. (Doc. 1 ¶ 14.) The IRS denied Plaintiffs’ claim  
15 for refund on October 7, 2020. (*Id.* ¶ 15.) Plaintiffs filed an administrative appeal, but the  
16 IRS sustained its decision. (*Id.* ¶ 16.)

17 On October 4, 2022, Plaintiffs filed the instant action against the United States  
18 raising a single claim: that the IRS owes them a refund in the amount of \$67,104. (Doc. 1  
19 ¶ 20.) Plaintiffs allege that “Palaniappan was not part of [Gilbert Hospital’s] section 409A  
20 plan” and therefore it was improper for Gilbert Hospital to liquidate and send to the IRS  
21 funds that were part of Palanniapan’s 401(k) qualified retirement plan. (*Id.* ¶¶ 10–11.) The  
22 United States filed an amended Answer on May 12, 2023 (Doc. 13), and the pending  
23 motion for judgment on pleadings on June 2, 2023 (Doc. 30.)

## 24 II. LEGAL STANDARD

25 A motion for judgment on the pleadings pursuant to Rule 12(c) is reviewed under  
26 the same standard applicable to a Rule 12(b)(6) motion to dismiss for failure to state a

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28 <sup>3</sup> The United States notes in its pending motion that although Gilbert Hospital initially sent the IRS \$72,298 as federal income tax withholding, the IRS refunded Plaintiffs \$5,194, which explains why Plaintiffs are seeking \$67,104 in the instant action.

1 claim. *Aldabe v. Aldabe*, 616 F.2d 1089, 1093 (9th Cir. 1980). In ruling on a Rule 12(c)  
2 motion, the Court must “accept all material allegations in the complaint as true and construe  
3 them in the light most favorable to the [non-moving party].” *Turner v. Cook*, 362 F.3d  
4 1219, 1225 (9th Cir. 2004). The Court must then consider whether the well-pleaded factual  
5 allegations, taken as true, plausibly entitle Plaintiffs to relief. *Ashcroft v. Iqbal*, 556 U.S.  
6 662, 679 (2009). “A claim for relief is plausible ‘when the plaintiff pleads factual content  
7 that allows the court to draw the reasonable inference that the defendant is liable for the  
8 misconduct alleged.’” *Landers v. Quality Commc’ns, Inc.*, 771 F.3d 638, 641 (9th Cir.  
9 2014) (citing *Iqbal*, 556 U.S. at 678). However, “where a complaint pleads facts that are  
10 merely consistent with a defendant’s liability, it stops short of the line between possibility  
11 and plausibility of entitlement to relief.” *Iqbal*, 556 U.S. at 67. In such a situation, “the  
12 complaint should be dismissed, or judgment granted on the pleadings.” *Strigliabotti v.*  
13 *Franklin Res., Inc.*, 398 F. Supp. 2d 1094, 1097 (N.D. Cal. 2005).

### 14 **III. DISCUSSION**

#### 15 **A. Collateral estoppel bars Plaintiffs’ claim for a refund.**

16 “Under collateral estoppel, once a court has decided an issue of fact or law necessary  
17 to its judgment, that decision may preclude relitigation of the issue in a suit on a different  
18 cause of action involving a party to the first case.” *Dodd v. Hood River Cnty.*, 59 F.3d 852,  
19 863 (9th Cir. 1995). Collateral estoppel applies when,

20 (1) the issue necessarily decided at the previous proceeding is  
21 identical to the one which is sought to be relitigated; (2) the  
22 first proceeding ended with a final judgment on the merits; and  
23 (3) the party against whom collateral estoppel is asserted was  
24 a party or in privity with a party at the first proceeding.

25 *Hydranautics v. FilmTec Corp.*, 204 F.3d 880, 885 (9th Cir. 2000).

26 Plaintiffs’ single claim for relief in this case is premised on whether Palaniappan’s  
27 retirement plan at Gilbert Hospital was a 409A plan, thereby subjecting it to federal income  
28 tax withholding, or a nontaxable 401(k) plan. This exact issue was already decided by the  
Bankruptcy Court. In resolving Palaniappan’s objection to Gilbert Hospital’s 409A  
amended proof of claim, the Bankruptcy Court addressed and overruled Palaniappan’s

1 assertion—which he again raises before this Court—that the funds at issue were part of a  
2 401(k) plan. Indeed, Plaintiffs concede that the “first and foremost” issue in this case is  
3 whether “money forwarded by Gilbert Hospital to [the] IRS were . . . 401(k) [r]etirement  
4 funds.” (Doc. 34 at 2.) As such, the issue necessarily decided at the bankruptcy proceedings  
5 is identical to the one Plaintiffs raise here.

6 As to final judgment on the merits, Ninth Circuit precedent provides that “the  
7 allowance or disallowance of a claim in bankruptcy is binding and conclusive on all parties  
8 or their privies.” *In re Bevan*, 327 F.3d 994, 997 (9th Cir. 2003); *see also In re Prestige*  
9 *Ltd. Partnership-Concord*, 234 F.3d 1108, 1113–14 (9th Cir. 2000) (holding that a district  
10 court order overruling a debtor’s objections to a lender’s claim was final judgment on the  
11 merits); *Wright v. Wells Fargo Bank, N.A.*, No. 11-00212 SOM-RLP, 2012 WL 2973202,  
12 at \*7 (D. Haw. July 19, 2012) (holding that bankruptcy court’s order overruling objection  
13 to secured claim was a final judgment on the merits). Accordingly, the Bankruptcy Court’s  
14 order overruling Palaniappan’s objection to Gilbert Hospital’s amended proof of claim was  
15 a final judgment on the merits.

16 Last, collateral estoppel is being asserted against Palaniappan, who was a party in  
17 the bankruptcy proceeding, and his wife, Dandamundi, who is in privity with Palaniappan.  
18 “Privity between parties exists when a party is so identified in interest with a party to the  
19 prior litigation that he represents precisely the same right with respect to the subject matter  
20 involved.” *Stratosphere Litig. L.L.C. v. Grand Casinos, Inc.*, 298 F.3d 1137, 1143 n.3 (9th  
21 Cir. 2002). Generally, “[s]pouses are in privity with each other where the cause of the  
22 action in the prior litigation was community in nature and the proceeds of any judgment  
23 that might have been recovered would have belonged to both husband and wife, as  
24 community property.” *Yang v. Fund Mgmt. Int’l, LLC*, 847 F. App’x 419, 421 (9th Cir.  
25 2021) (cleaned up). Arizona considers contributions made into a deferred compensation  
26 plan to be community property. *See e.g., Koelsch v. Koelsch*, 713 P.2d 1234, 1244 (Ariz.  
27 1986); *Johnson v. Johnson*, 638 P.2d 705, 708 (Ariz. 1981). Because the Bankruptcy  
28 Court’s ruling affected the distribution of Palaniappan’s 409A plan, which is a deferred

1 compensation plan, there is privity between Palaniappan and his wife and thus collateral  
2 estoppel may be asserted against both.

3 The Court finds that all three requirements of collateral estoppel have been met. It  
4 is clear Palaniappan had a full and fair opportunity to litigate the exact issue Plaintiffs raise  
5 in this action, and the issue was decided in a final judgment. As such, collateral estoppel  
6 precludes Plaintiffs from relitigating their refund claim before this Court.

7 **B. The doctrine of double recovery also precludes Plaintiffs’ claim.**

8 Double recovery of damages is disfavored. *Kissell Co. v. Gregory*, 591 F.2d 47, 51  
9 (9th Cir. 1979); *Kenny v. Lawseth*, 198 F.3d 254 (9th Cir. 1999) (unpublished table  
10 decision). In this case, Plaintiffs seek a refund of \$67,104, constituting the amount withheld  
11 as taxes from Palaniappan’s 409A distribution. Yet, the District Court already awarded  
12 Palaniappan judgment in this amount in *Palaniappan v. Gilbert Hosp. LLC*, No. CV-17-  
13 00517-PHX-JJT (D. Ariz.). (See Doc. 27-4 at 3.) In ruling on his ERISA claim against  
14 Gilbert Hospital, the District Court awarded Palaniappan a total of \$525,238, one  
15 component of which accounted for “the loss [Palaniappan] claims he suffered when  
16 [Gilbert Hospital] moved his retirement account from a 401k to a 409a plan.” And this loss  
17 that Palaniappan claims he suffered specifically included the portion of his 409a  
18 distribution that was sent to the IRS as federal income tax. Thus, the District Court went  
19 on to deny Palaniappan’s request that, in addition to the damages award against Gilbert  
20 Hospital, he be awarded a tax refund from the IRS. The District Court explained that to  
21 enter an order directing the IRS to refund the amount wrongly paid to it “would constitute  
22 double counting of damages.” (*Id.*)

23 That same reasoning holds true here.<sup>4</sup> Merely initiating a new action does not entitle

24 <sup>4</sup> Plaintiffs contend that the United States has placed them in “Double Jeopardy” by  
25 failing to recognize the District Court’s order and forcing Palaniappan to file a case against  
26 the IRS to retrieve these funds. Plaintiffs appear to read the District Court’s order as holding  
27 that the money the IRS has in its possession constitutes Palaniappan’s “retirement funds,  
28 not taxes” and as a result the IRS must refund such money to Palaniappan. Plaintiffs  
misunderstand both the District Court’s order and Double Jeopardy. First, the District  
Court neither held that Palaniappan was entitled to an IRS refund nor ordered the IRS to  
do so. Indeed, the Court recognized that the IRS was not party to the suit, and therefore the  
Court could not compel the IRS to take any action in the matter. Second, the Double  
Jeopardy Clause only applies to criminal penalties and thus is irrelevant to the case at bar.

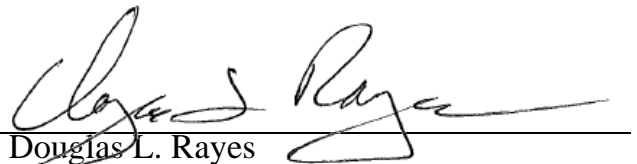
1 Plaintiffs to seek judgment that Palaniappan has already been awarded. What’s more, after  
2 the District Court entered judgment in Palaniappan’s favor, Palaniappan filed a Satisfaction  
3 of Judgment with the Court. (Doc. 35-2.) As such, the relief Plaintiffs seek in this case has  
4 not only been awarded but it also has been satisfied.

5 In sum, the Court finds that collateral estoppel bars relitigation of Plaintiffs’ claim  
6 against the United States, and the doctrine of double recovery precludes Plaintiffs from  
7 seeking relief that has been awarded and satisfied. As such, the United States is entitled to  
8 judgment as a matter of law.

9 **IT IS SO ORDERED** that Plaintiffs’ Motion to Submit an Additional Response,  
10 construed by the Court as a motion to file a sur-reply, and to Request an Oral Argument  
11 (Doc. 38) is **DENIED**.

12 **IT IS FURTHER ORDERED** that the United States’ Motion for Judgment on the  
13 Pleadings (Doc. 30) is **GRANTED**. The Clerk is directed to enter judgment in favor of the  
14 United States and terminate this case.

15 Dated this 27th day of March, 2024.

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Douglas L. Rayes  
United States District Judge

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U.S. Const. amend. V; see *Hudson v. United States*, 522 U.S. 93, 99 (1997) (“The [Double Jeopardy] Clause protects only against the imposition of multiple *criminal* punishments for the same offense.”).